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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter	)	
	)	
The National Exchange	)	
Carrier Association, Inc.	)	
Proposed Revision of Part 69	)	RM-8389
of the Commission's Rules	)	
to Allow for Incentive Settlement	)	DOCKET FILE COPY ORIGINAL
Options for NECA Pool Companies	)	

AT&T COMMENTS

Pursuant to Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, AT&T Corp. ("AT&T") submits these comments on the supplemental comments filed by the National Exchange Carrier Association, Inc. ("NECA") in the above-captioned rulemaking petition. In 1993, NECA filed its original petition for rulemaking to establish "incentive settlement options" for local exchange carriers ("LECs") in NECA's pools.

AT&T filed comments supporting the principle of incentive regulation for small LECs to further the Commission's stated goals of encouraging greater efficiency, productivity and technological innovation by those carriers while offering the benefits of lower rates and nondiscriminatory pricing to access customers.[1] AT&T again supports the principle of incentive regulation for small LECs. However, NECA's proposed Customer Dividend Incentive Option ("CDIO"), which replaces the Profit Sharing Incentive Option NECA previously proposed, does not satisfy the Commission's objectives.[2]

NECA's Customer Dividend Incentive Option allows a cost-company in NECA's pools to elect incentive regulation for either traffic sensitive services only or for both common line and traffic sensitive services. LECs choosing this option would be required to participate for at least two two-year periods. Supplemental Comments, p. 4. The CDIO includes a customer dividend factor equal to 0.65% in the calculation used to set the LEC-specific pool settlement rates. This factor, NECA contends (id.), would lower a company's settlement rates by 0.65% per year.

Even under the revised proposal, average schedule and incentive plan settlements would be added to

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1 See National Exchange Carrier Association, Inc. Proposed Revision of Part 69 of the Commission's Rules to Allow for Incentive Settlement Options for NECA Pool Companies, AT&T Comments, filed December 16, 1993 ("AT&T Comments").

2 The Small Company Incentive Option, first proposed in NECA's 1993 petition for rulemaking, is not changed by NECA's supplemental comments. Consequently, AT&T is not commenting on that plan here. See AT&T Comments.

cost company revenue requirements to arrive at NECA's total pool revenue requirement. NECA would also sum average schedule, incentive plan and cost company demand forecasts to arrive at total pool demand. From these revenue requirement and demand aggregates, NECA would calculate its uniform tariff rate. Supplemental Comments, pp. 9-11. Moreover, LECs adopting CDIO will continue to assess NECA's uniform tariff rates on their access customers. Id., pp. 4, 9-11.

NECA's rulemaking proposal, even after modification, is deficient in several respects.[3] First, NECA has not demonstrated that incentive regulation in a pool environment will produce the desired benefits, particularly in terms of lower access rates. Second, NECA's proposals still do not appear calculated to satisfy the Commission's goals for incentive regulation, even if NECA had demonstrated that the incentive plan will work in

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[3] In all events, incentive option plans have not been embraced by LECs. AT&T suggested, in its 1993 comments (p. 4), that the Commission should allow itself time to acquire actual experience with the efficacy of the Optional Incentive Regulation ("OIR") plan before it entertained any request such as NECA's to modify that plan for application to pool member LECs. To date, only one LEC has elected to be regulated under the OIR plan. This apparent lack of interest once again illustrates that the Commission should weigh the need to conserve its finite resources against the purported benefits of incentive regulation for small LECs.

a pool environment.[4] NECA's CDIO, in its current form, still fails to provide substantial incentives for increased efficiency or benefit to access ratepayers. In addition, it appears that the earnings of the non-incentive members of NECA's pools could dilute any productivity benefits produced by incentive pool members.

AT&T does not oppose the idea of an incentive plan, so long as the plan increases efficiencies and productivity levels and ensures that these benefits are shared with ratepayers. However, any incentive plan must provide efficiencies for both carriers individually and the pool as a whole. It is unclear whether an optional incentive plan offered to pool members would meet these goals. For example, the optional nature of NECA's proposed plan could potentially lead to reduced, rather than greater, carrier efficiency. Those pool companies that choose not to participate in the incentive plan have no incentive to achieve greater efficiencies and productivity levels. LECs that anticipate significant near-term cost economies (for example, through installation of new digital switches) could elect

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4 See, e.g., Policy and Rules for Rates of Dominant Carriers, CC Docket No. 87-313, Second Report and Order, 6 FCC Rcd. 6786, 6787 (1990) (Commission's objective is to "advance the public interest goals of just, reasonable, and nondiscriminatory rates, as well as communications system that offers innovative, high quality services").

treatment under NECA's plan simply to retain more of the earnings achieved through these network upgrades. At the same time, other pool LECs that do not anticipate productivity gains are free to remain subject to rate of return regulation. Thus, to ensure there is an incentive for these companies, all members of the pool must participate in the plan and use customer dividend factor in calculating the settlement rates.

NECA proposes a customer dividend factor of 0.65% without providing any substantiation of that figure. NECA should provide an analysis justifying the 0.65% factor, or some other factor, and that that factor will lead to greater efficiencies.

WHEREFORE, for the reasons stated above, the Commission should decline to initiate a rulemaking on the incentive settlement options described in NECA's petition and supplemental comments.

Respectfully submitted,

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June 19, 1995

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 19th day of June, 1995, a copy of the foregoing "AT&T Comments" was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

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